

19 March 2021

Strictly Private & Confidential

For the attention of Kate Dalby
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Dear Ms Dalby

Proposals to revise the UK's Quality Management Standards

We are pleased to respond to the FRC's invitation to comment on the proposals to revise the UK's Quality Management Standards and specifically to adopt ISQM 1 and ISQM 2, as supplemented where necessary for the UK.

We are supportive of the FRC's desire to ensure improvements in quality occur not only at the audit engagement level but at the firm level and believe that the new Standards will help to drive that improvement by requiring firms to focus not only on the overall system of quality management but also on the root cause of deficiencies and to take appropriate action to rectify them.

We have responded to the consultation questions in turn below.

1. Do you agree that ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220 should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK)? If not, please give your reasons.

We agree that ISQM 1 and 2 should be adopted in the UK together with the relevant conforming amendments. High quality audit requires an appropriate system of quality management at the firm level and we agree that the introduction of ISQM 1 in the UK will encourage firms to invest in their system of quality management and, where necessary, make improvements.

In our opinion the inclusion of the requirements for engagement quality control reviews within the separate ISQM 2 will help to emphasise the importance of the EQCR process and the relevant requirements for the review, and is therefore preferable to the requirements being incorporated within other standards as is currently the case.

- 2. If you agree that the ISQMs (UK) and ISAs (UK) should be revised to adopt the revisions to the underlying international standards, do you agree that the proposed UK supplementary material is appropriate? If not, please give your reasons and explain what further additions or subtractions should be made.**

We agree with the approach taken in respect of UK supplementary material, i.e. to retain the existing 'UK pluses' but not to add any new ones.

- 3. Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISQMs and ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.**

We agree that the proposed effective date should be aligned with that of the IAASB as this gives firms, particularly smaller firms, an appropriate time frame to put in place the necessary changes to quality management systems that application of the Standards may require.

We do not believe that the FRC should impose a more onerous timetable on UK audit firms compared to that available to firms in other jurisdictions. We are also concerned that the FRC's approach of 'strongly encouraging', rather than 'encouraging' firms to early adopt the new Standards will be perceived by firms, or indeed by regulators, as a de facto requirement to early adopt which will put additional pressure on firms (particularly smaller firms) at a time when firms are already experiencing pressures for reasons including, but not limited to, the impact of new auditing and ethical standards and the ongoing impact of the COVID-19 pandemic. In our opinion firms should be encouraged to early adopt if it is practicable, but should not be subject to actual or perceived pressure to do so.

- 4. ISQM (UK) 1 requires the auditor to establish a monitoring and remediation process that identifies, evaluates and responds to findings that result in one or more deficiencies in the firm's system of quality management. Do you agree with this approach or should the standard include requirements for firms also identify, evaluate and respond to positive outcomes and opportunities? Please give reasons for your response.**

We agree with the approach in ISQM 1 to require a process that responds to deficiencies in the firm's system of quality management.

We do not believe that there should be any mandatory requirement to identify, evaluate and respond to positive outcomes and opportunities. Whilst we agree that ideally firms will respond to such positive outcomes and opportunities, for instance by promoting best practice within the firm, in our view the focus of the Standard should be on identifying and rectifying deficiencies. We therefore believe that the approach taken by the IAASB in ISQM 1 – that firms should be encouraged to respond to positive outcomes, but not required to – is appropriate and should be retained for the UK version of the Standard.

- 5. The requirements in ISQM (UK) 2 are currently applicable to all engagements for which an engagement quality review is required to be performed. Do you believe that ISQM2 could be enhanced through further requirements and/or application material for non-assurance engagements. If so, please give your detailed reasons and explain how ISQM (UK) 2 could be enhanced, in the context of a non-assurance engagement.**

The application of ISQM 2 in respect of non-assurance assignments is likely to be limited compared to its application to audit or other assurance engagements. Rather than add further 'UK plus' requirements to the Standard itself, we would suggest that the FRC issues separate guidance in the context of those non-assurance assignments specific to the UK for which an EQCR is now considered to be required.

We hope that our comments are useful to you. If you have any questions in respect of our responses, please contact either Maureen Penfold or Tessa Park.

Yours faithfully



Moore Kingston Smith LLP